

4TH QTR.

1987



The Conference Board

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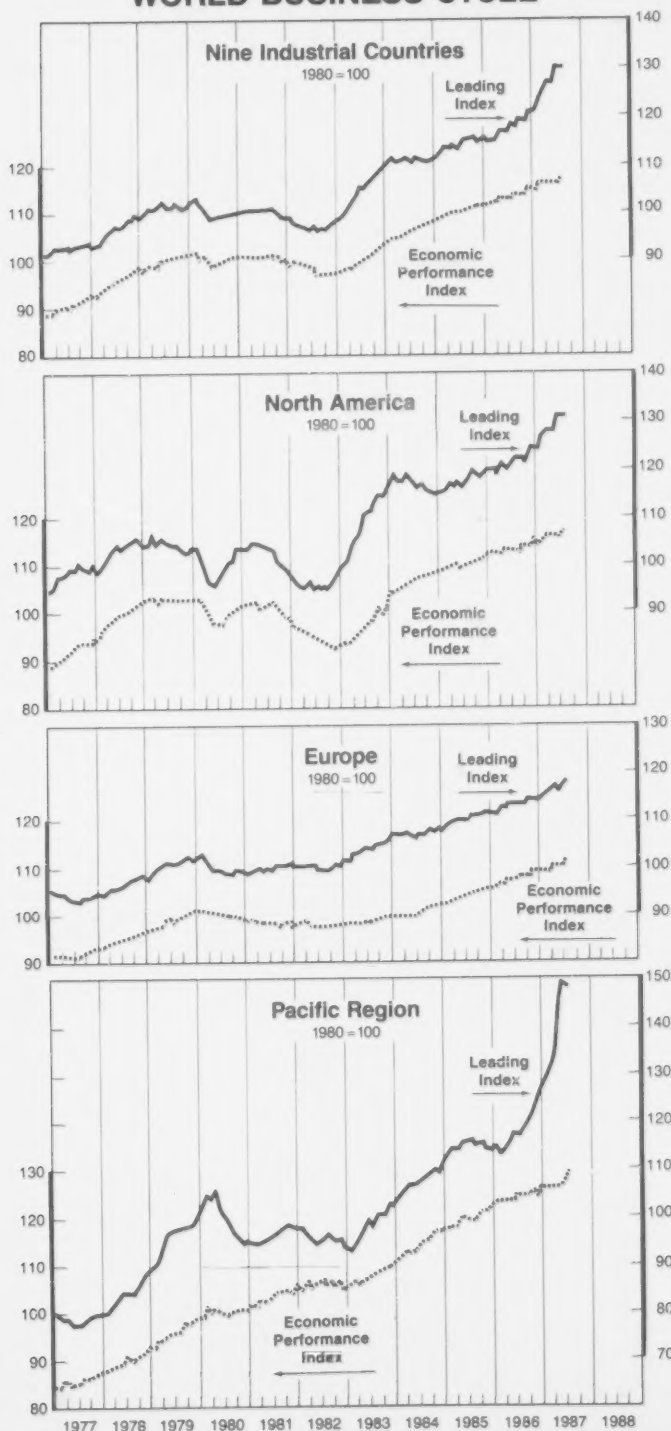
Economic Analysis Program

International Economic Scoreboard

A Quarterly Report from The Conference Board

Fourth Quarter

WORLD BUSINESS CYCLE



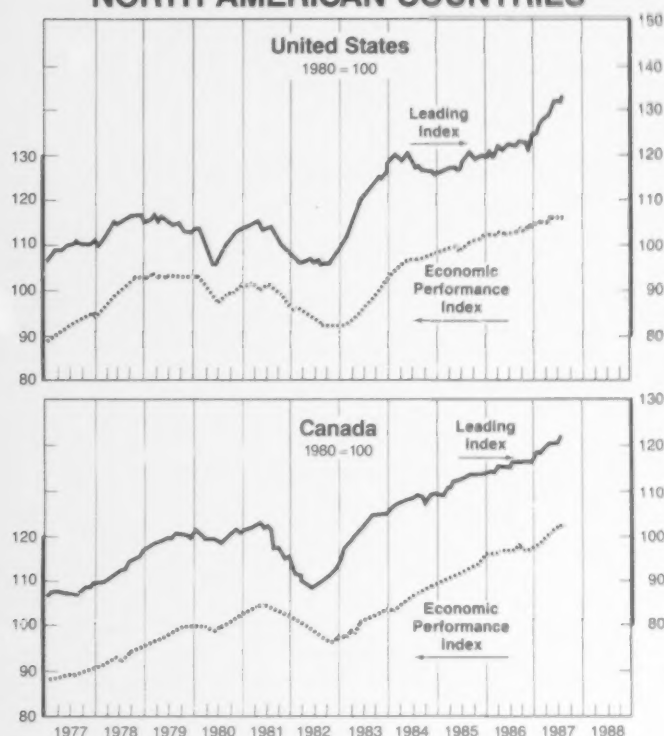
The world business cycle continues to advance. Sales, output, employment and other measures of economic performance are climbing moderately, but the leading indexes are rising spiritedly, suggesting a step-up in the pace of economic advance. At this point the major indexes reveal no early sign that might have pointed to the worldwide crash in stock prices in mid-October.

The indexes for North America are behaving in a nearly identical way to those for all nine countries. The performance index is rising steadily but unspectacularly, while the leading index signals a somewhat faster expansion ahead.

The European economic picture is insipid. The expansion continues but without character—nothing to elicit feelings either of excitement or anxiety.

All the pep is in the Pacific. The region's performance index is accelerating moderately, but the leading index is positively explosive.

NORTH AMERICAN COUNTRIES



The U.S. figures shown here look quite strong through August. As we look ahead, however, the leading composite for September will be pulled down by the price indexes for industrial materials and common stocks, and also by a decline—probably quirky because of the Labor Day holiday—in the average work-week. Further, the recent stock price debacle will be enough by itself to depress the October leading index. There's no basis now for thinking a recession is imminent, but it's not too soon to watch the incoming data with extra care.

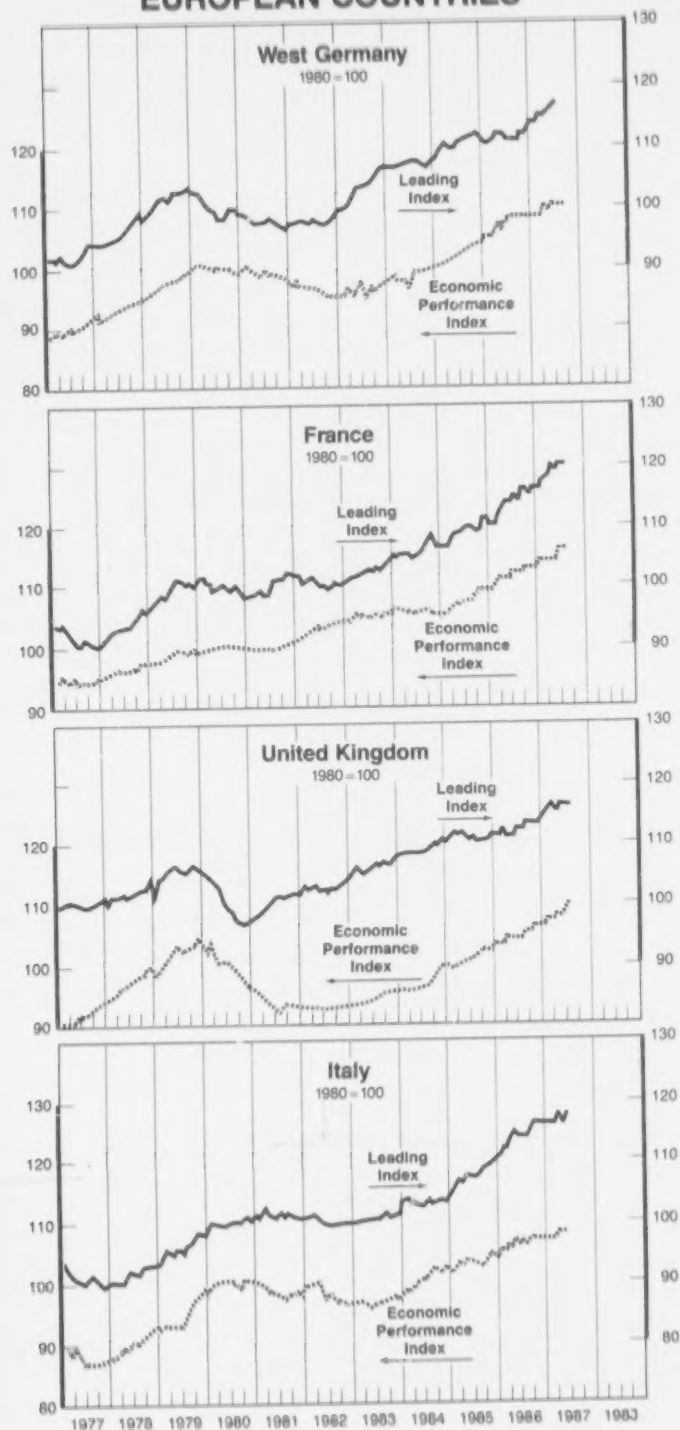
The Canadian data are much like the United States, with both the performance and leading indexes showing moderate but respectable growth.

Summary Of Growth Rates, Nine Industrial Countries

	Ten-year Growth Rate	Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered	
		6 mos.	3 mos.	Latest	6 mos.	3 mos.	Latest			
		ago	ago	month	ago	ago	month			
1976-86										
annual rates, percent										
9 countries	3	3	3	4	7	11	12	Expansion continuing, leaders strong	July	
North America (2)	3	2	3	4	5	9	9	Expansion continuing	July	
Europe (4)	2	3	4	3	3	5	5	Expansion continuing	July	
Pacific Region (3)	4	4	2	5	17	28	29	Expansion continuing, leaders strong	July	
United States	3	3	3	3	8	7	10	Expansion continuing, leaders strong	Aug.	
Canada	3	2	4	4	4	6	6	Expansion continuing	July	
West Germany	2	2	2	3	2	5	6	Expansion continuing	Aug./July	
France	2	3	3	5	4	6	5	Expansion continuing	July/Aug.	
United Kingdom	2	4	5	6	4	4	3	Expansion continuing	July	
Italy	2	2	1	2	4	3	4	Expansion continuing	May/June	
Japan	4	4	1	4	18	30	32	Expansion continuing, leaders strong	July	
Australia	3	2	5	12	10	12	13	Expansion continuing, leaders strong	July	
Taiwan, R.O.C.	8	15	10	12	14	17	16	Expansion continuing, leaders strong	Aug.	

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

EUROPEAN COUNTRIES



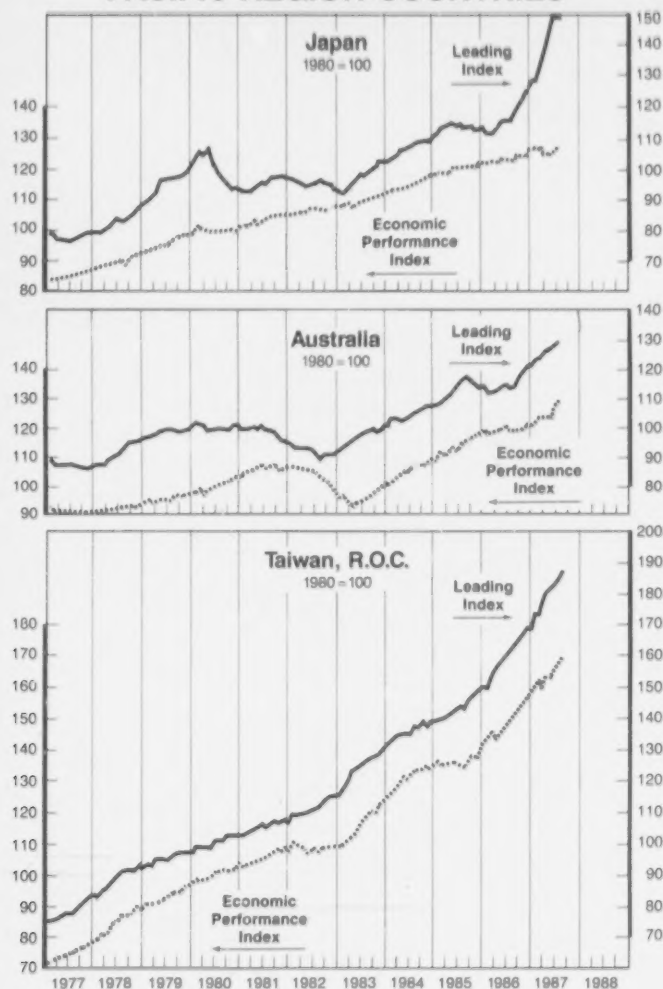
The German economy continues to expand at a pedestrian pace. The leaders show more strength than the performance index, but not enough to write abroad about.

Like the rest of Europe, the French economy is expanding at a reasonable but uninspiring pace.

The United Kingdom has the best growth in Europe over the past 6 months, but its leading index, although rising, shows no potency.

The Italian economy, according to the latest statistics (delayed, as usual), is still expanding, but at the slowest pace in Europe.

PACIFIC REGION COUNTRIES



Japan's economic performance index is advancing at a 4 percent annual rate—a very average pace. But the leading index is exploding. The 32 percent growth rate calculated for the leading composite in July is the fastest rate registered for any country in the past 15 years, and one of the fastest ever. All of the component leading indicators contributed to the advance in recent months, especially overtime hours, raw materials prices, stock prices, business profitability, and an inventory buildup.

The new development in Australia's economy is the dramatic speed up in the performance index in the early summer. The leading index had accelerated sharply in the final months of 1986, and now the growth of the economy has followed the leaders.

Taiwan, like Australia, shows vigorous growth in both the performance and leading indexes. In Taiwan, however, this is nothing new, since it is a continuation of the rapid economic expansion that started in late 1985.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

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For More Information

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ECONOMIC EXPANSION REACHES RECORD LONGEVITY

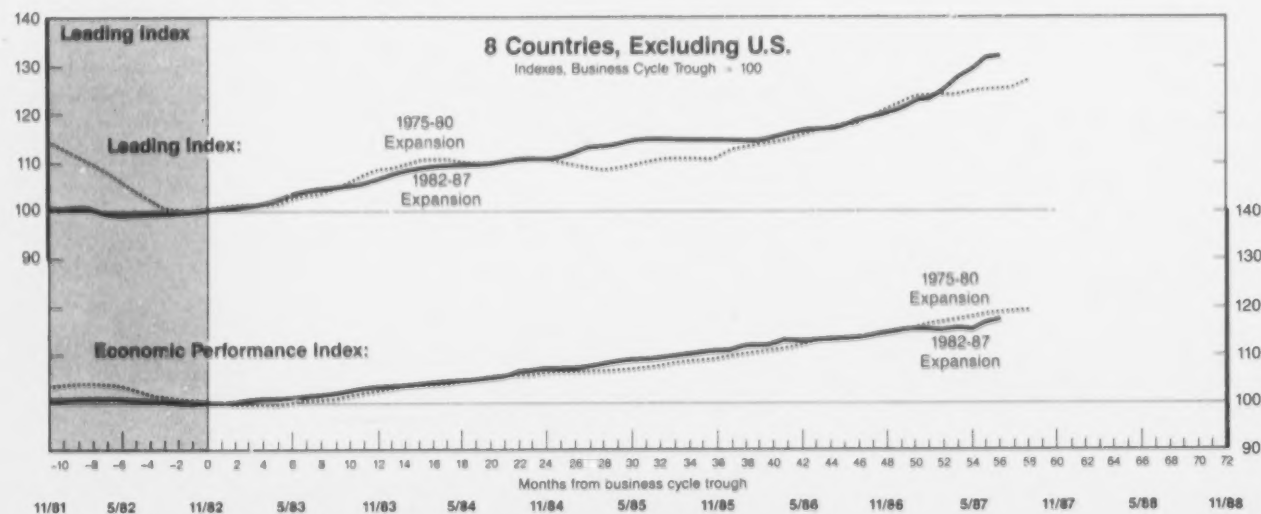
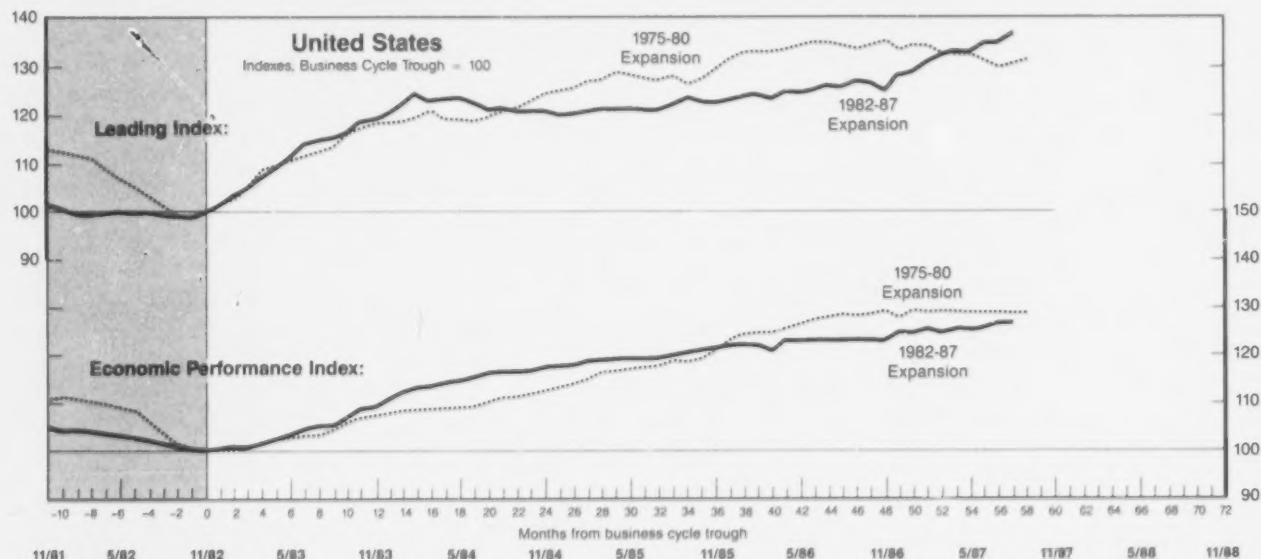
October 1987 marks the date when the current expansion of the U.S. economy surpassed the longest previous peacetime expansion in history. That expansion ran for 58 months, from March 1975 to January 1980. The current expansion began in November 1982, and reached its 59th month in October 1987.

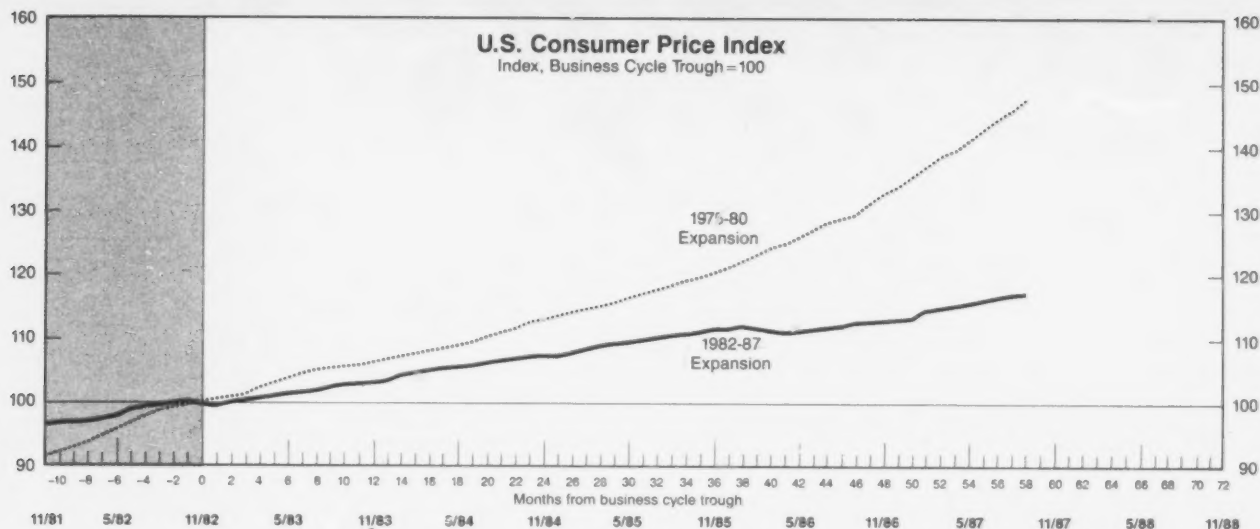
How do the two expansions compare in terms of growth, both nationally and internationally? Are there signs that the current expansion is petering out? What about inflation? The accompanying charts of recession-recovery patterns are designed to answer these questions, using some of the indexes published in the *Scoreboard*.

The economic performance index for the United States, which includes real GNP, industrial production, employment, unemployment, and business sales, rose faster during the first year and a half of the current expansion than

in the one beginning in 1975, but it slowed down sooner. The upshot is that the overall increase to date has fallen a bit short of the 1975-80 increase. That is, during the 57 months from November 1982 to August 1987 the index rose 26 percent; during the corresponding 57 months of the late 1970s it rose 29 percent. At an average annual rate the current expansion checks in at 5.0 percent, compared to 5.5 percent for the previous one.

The U.S. leading index shows a somewhat similar pattern, with rapid growth first and then a slowdown, but lately it has picked up speed. Its 57-month advance through August has exceeded its corresponding rise in 1975-80: 37 percent vs. 30 percent. By this time in the previous expansion the leading index was already declining, signaling the 1980 recession would shortly begin. The recent speed-up suggests that the current expansion still has a way to go,





although the October debacle in the stock market, of course, raises a caution flag about that conclusion.

The indexes for the eight other countries show that both expansions, although defined in terms of U.S. experience, have been truly international in scope. The eight-country performance index in the current expansion has virtually reproduced the track that it followed in 1975-80. During the 56 months through July 1987 it rose 17 percent, only slightly below the 19 percent advance during 1975-80. The eight-country leading index bettered its previous climb, rising 32 percent this time compared with 25 percent last time. During the U.S. recession of 1980, the eight-country leading index declined while the performance index merely leveled off. Lately neither index has shown any sign of faltering. That will probably help to keep the U.S. expansion going, by supporting our export trade.

Consequently, we are virtually certain to establish new records—both in duration and magnitude—for U.S. peacetime expansions in economic activity. The achievement is the more remarkable because it has been accompanied by relatively little inflation. In this respect the current expansion differs sharply from that of 1975-80. In that expansion the consumer price index rose 48 percent in the first 58 months, whereas over the same period in this expansion it has risen only 17 percent. The annual rates are 8.4 percent and 3.3 percent, respectively.

Of course, 3.3 percent is not zero, and the rate of inflation during the past year has been above that, though nowhere near the 1980 level. To keep inflation within bounds, we must keep costs down. Moreover, it would be well to remember that when costs begin to rise faster than prices most expansions have ended. Cost containment is a good prescription for a long-lived expansion with little inflation.

The Conference Board

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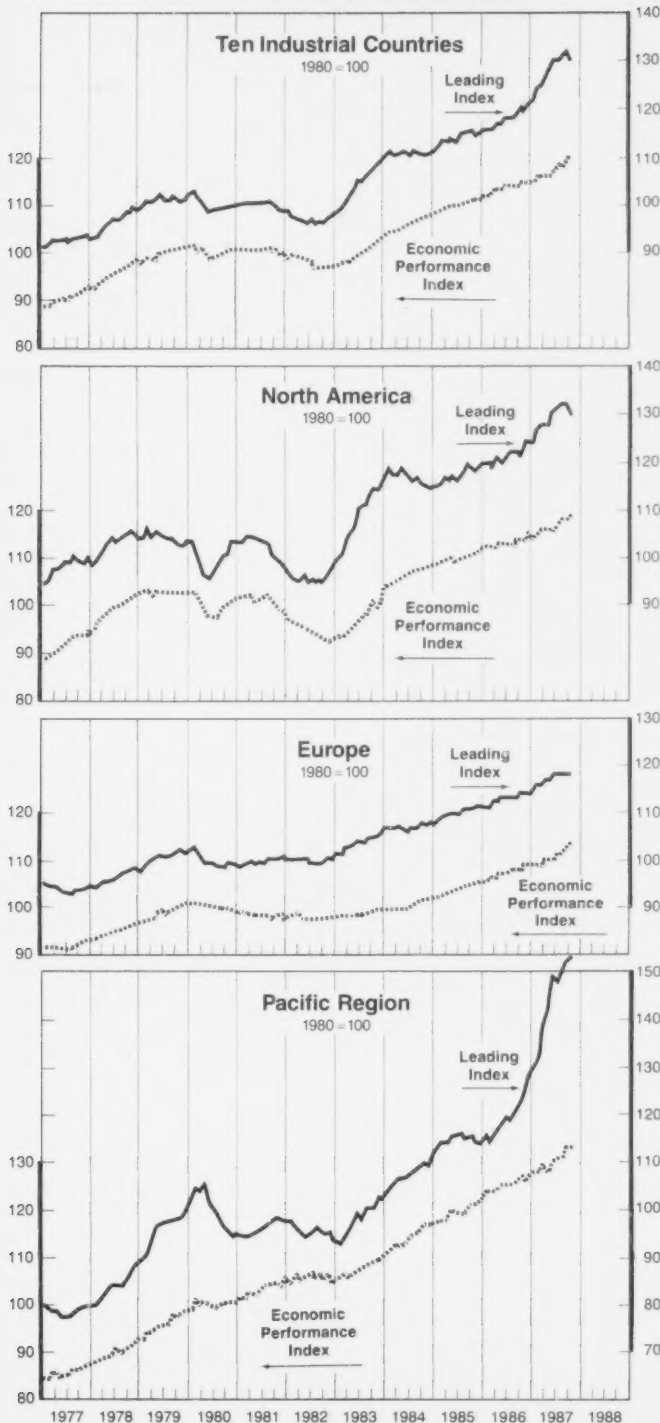
Economic and Business Environment Program

International Economic Scoreboard

A Quarterly Report from The Conference Board

First Quarter

WORLD BUSINESS CYCLE



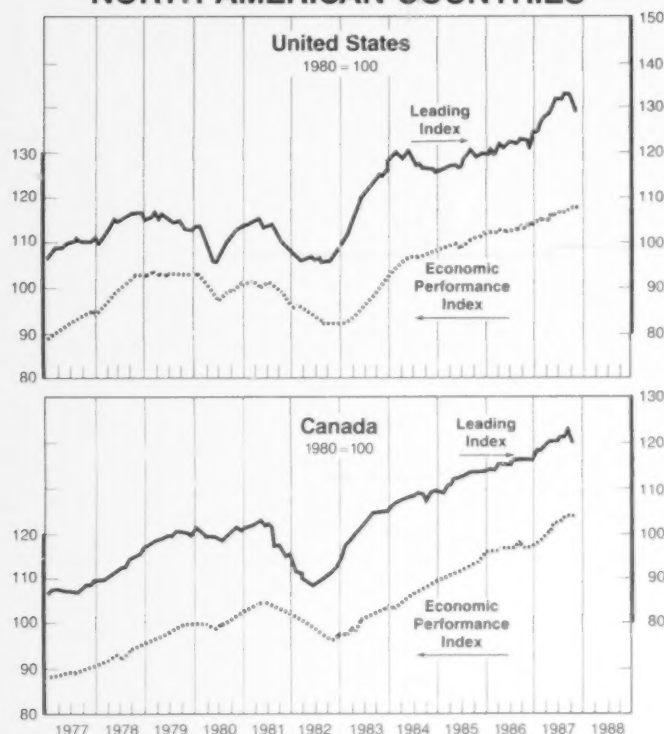
The world business cycle continues to advance, and at a more than respectable pace. Since the October stock market crash, however, the leading indexes are no longer encouraging. Although the latest growth rate is still positive (reflecting the strong rise in the index earlier in the year) the ten-country composite index declined in October and could well do so again in November. The available November data for other early moving economic indicators (other than equity prices) show some negatives, but it is still too soon to know whether the weakness is widespread.

The indexes for North America reflect the worldwide pattern, but with less oomph. The performance index continues its steady advance but the drop in equities turned the leading index down in October.

The European pattern is similar to that of North America. The performance index is climbing steadily, but the leading index leveled off in recent months.

The Pacific area indexes, which now include South Korea, exhibit greater strength than elsewhere. Economic activity continues to climb smartly, and the leading indicators were still on the upgrade through October.

NORTH AMERICAN COUNTRIES



In the United States, the leading index dropped substantially in October and November, with the weakness focused on stock prices, industrial materials prices and the consumer credit component. Employment and output continue to rise, but the faltering in the leaders is more than enough to make you nervous.

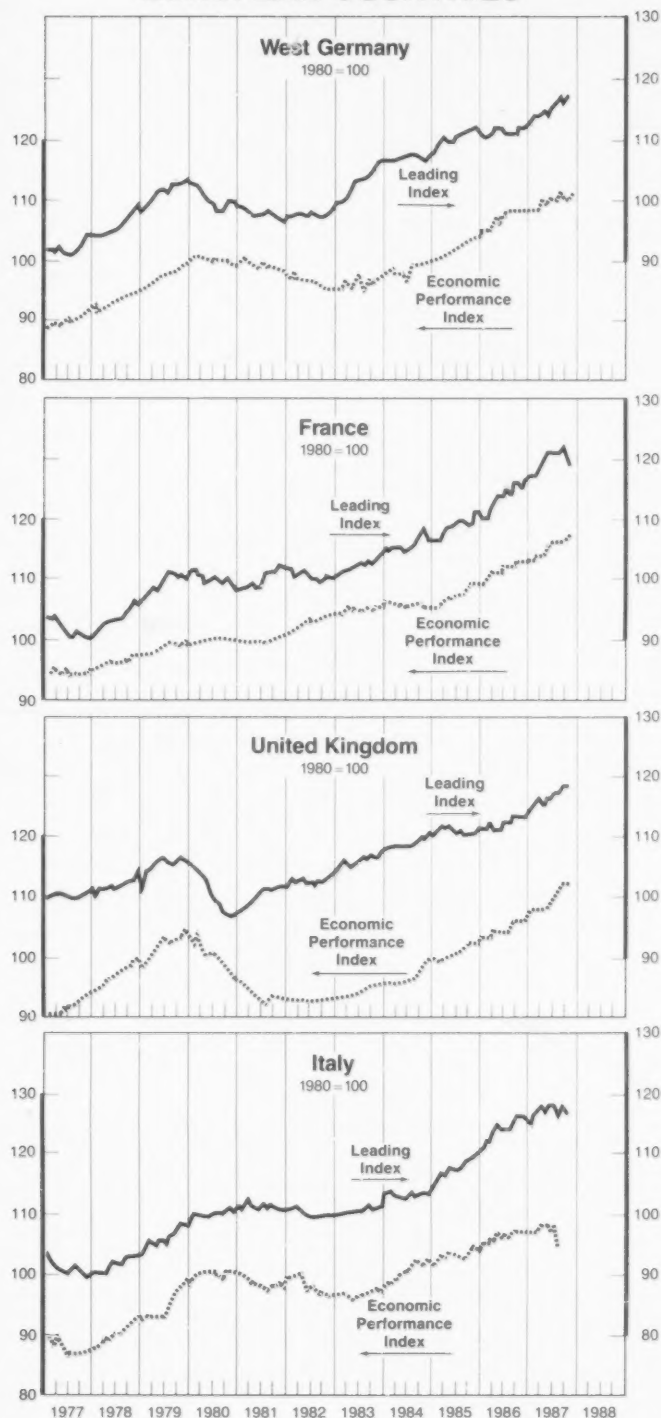
Canada's indicators show a similar pattern to those of the United States. The Canadian leading index declined 2 percent in October, with the drop focused on stock prices and the consumer credit component.

Summary Of Growth Rates, Ten Industrial Countries

	Ten-year Growth Rate	Indexes of Economic Performance Growth Rates*			Leading Business Cycle Indexes Growth Rates*			Current Reading on the Cycle	Latest Month Covered
	1976-86	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
	annual rates, percent								
Ten countries	3	3	4	5	12	11	7	Expansion continuing	Oct.
9 countries excl. U.S.	3	3	5	5	13	13	10	Expansion continuing, leaders strong	Oct.
North America (2)	3	3	4	5	9	9	4	Expansion continuing	Oct.
Europe (4)	2	4	4	5	5	5	3	Expansion continuing	Oct.
Pacific Region (4)	4	3	6	6	27	26	20	Expansion continuing, leaders strong	Oct.
United States	3	3	4	4	7	10	1	Expansion continuing, leaders weak	Nov.
Canada	3	5	5	7	6	5	2	Expansion continuing	Oct.
West Germany	2	2	3	3	5	6	4	Expansion continuing	Nov./Oct.
France	2	4	5	5	8	6	1	Expansion continuing, leaders weak	Oct.
United Kingdom	2	5	7	7	4	4	5	Expansion continuing	Oct.
Italy	2	1	2	-3	5	4	1	Expansion stalling, leaders weak	Aug./Oct.
Japan	4	2	4	6	30	29	22	Expansion continuing, leaders strong	Oct.
Australia	3	5	10	5	12	12	5	Expansion continuing	Oct.
Taiwan, R.O.C.	8	11	13	8	17	16	13	Expansion continuing, leaders strong	Nov.
Korea, R.O.K.	7	13	12	13	15	16	20	Expansion continuing, leaders strong	Oct.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

EUROPEAN COUNTRIES



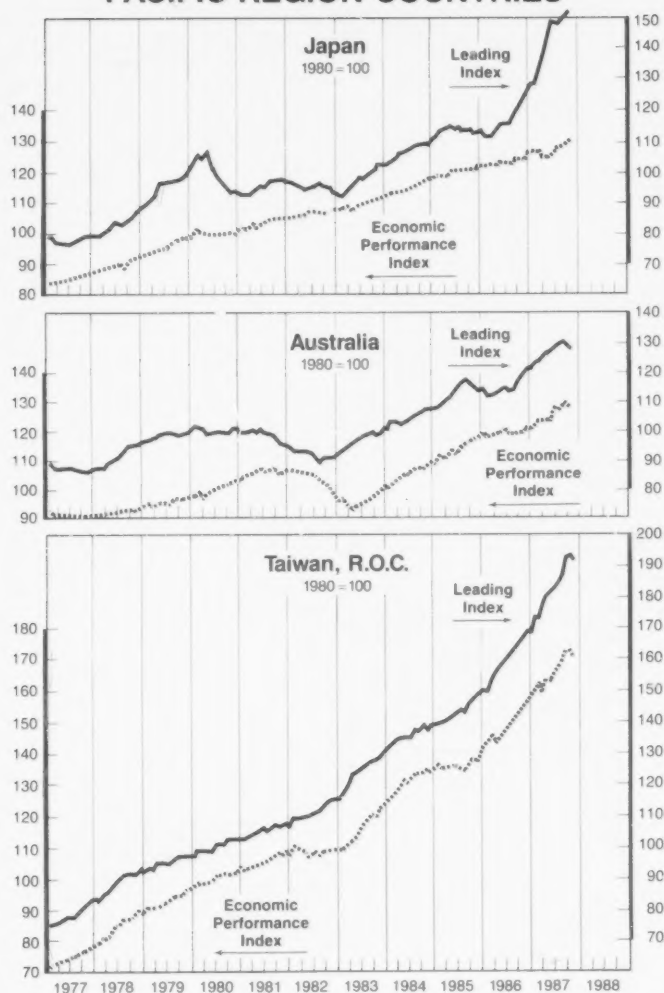
In Germany, although the performance and leading series show growth rates that are positive, both indexes have been essentially directionless since midsummer.

The French economy has continued to advance but the leading indicators have been sluggish for five months now.

In the United Kingdom, both indexes have continued to expand at a sturdy pace right through October.

The leading index for Italy has leveled off. Although the performance index went down sharply in August, subsequent data on industrial production suggest a comeback. Nevertheless, the leading indicators are not optimistic about the future.

PACIFIC REGION COUNTRIES



Japan's economic performance index is climbing at a good clip, and even picking up momentum—as signalled earlier this year by the explosive advance in the leading index. The upward push of the leaders, unlike most other countries, was not halted in September or October.

Two months ago the Australian indexes gave a very favorable reading but the September and October data have weakened the outlook noticeably.

In Taiwan, R.O.C., the pattern is similar to Australia: Two months ago the outlook was boomy, but it has been clouded by the October and November figures.

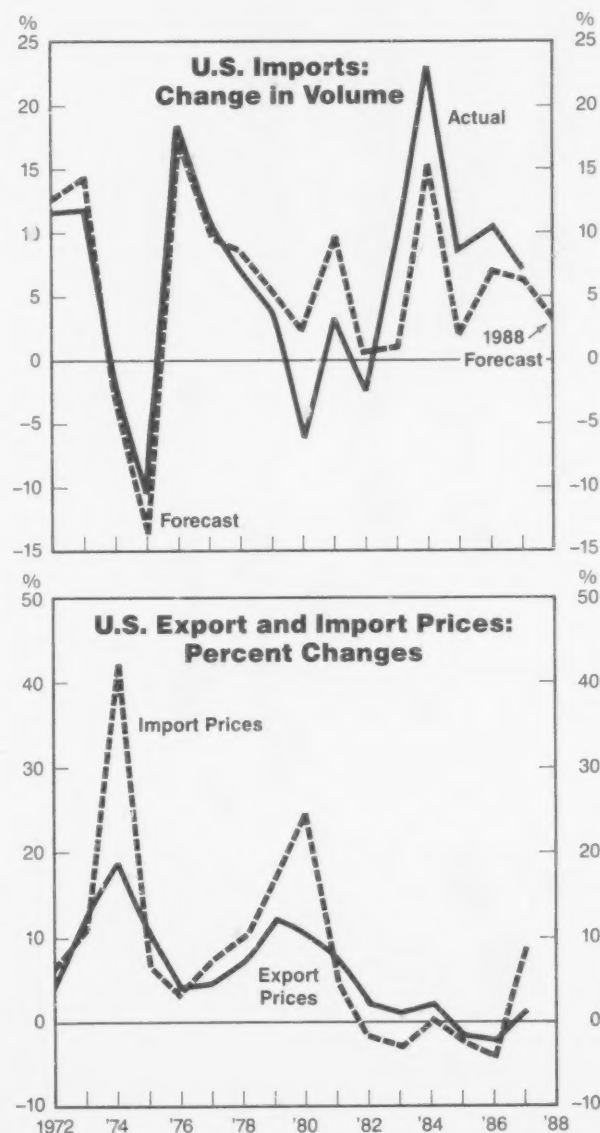
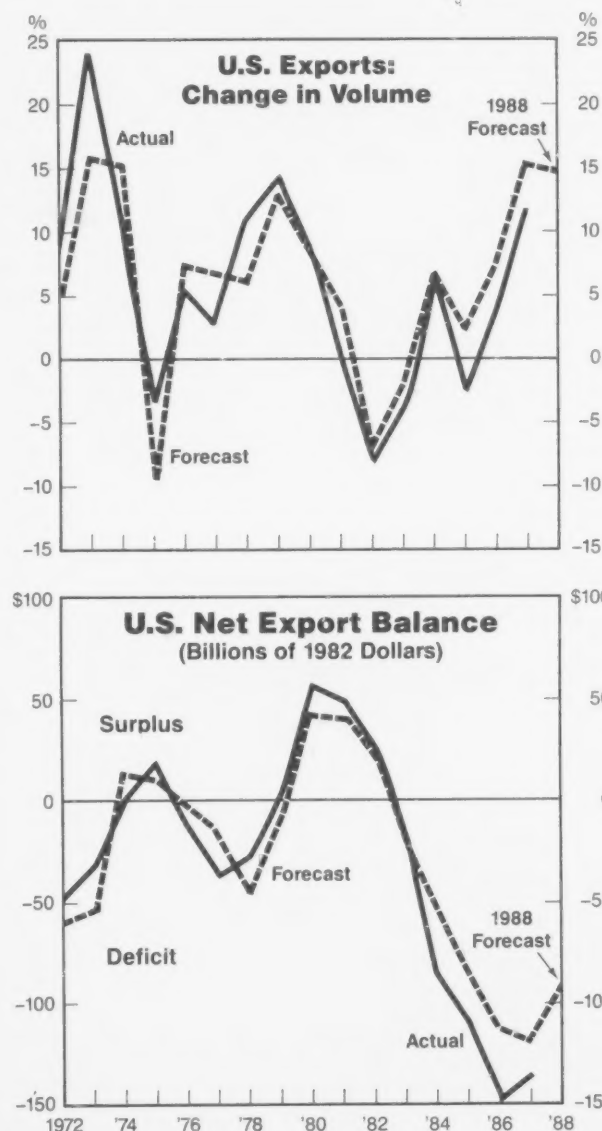
Data for South Korea are reported for the first time in this issue of the Scoreboard. (A chart will be ready for the next issue.) With a 13% growth rate in its performance index, the Korean economy is at the head of the growth parade by an impressive margin. The strength of its leading index through October suggests this rapid pace of advance will continue, at least through the Olympics.

REAL TRADE DEFICIT TO DECLINE IN 1988

It will be no news to *Scoreboard* readers that imbalances between U.S. exports and imports have been breathtakingly large in the 1980's. In 1980, the trade *surplus* in goods and services (measured in constant dollars) hit an historic high of \$57 billion. By 1986, the trade *deficit* was higher than ever before, \$146 billion. This reversal of over \$200 billion in the nation's real net exports of goods and services occurred in only six years.

The real balance is important because it affects employment and production. If no change had occurred in the real trade balance during these years, the economy would have grown at a vigorous 3.5 percent per year instead of the mediocre 2.6 percent it turned out to be.

What has been less apparent from the news stories, which concentrate on the balance in current dollars (and which, therefore, is affected by changes in the prices of imports and exports, and not just their physical volume), is that the real deficit has been declining since the third quarter of 1986. At its peak then, at an annual rate, the deficit was \$162 billion. By the third quarter of 1987, the latest available figure, the deficit was down to \$138 billion. This improvement raised the real GNP growth rate over the preceding four quarters to 3.2 percent; without it, the growth rate would have been 2.5 percent. Most of this difference was due to the phenomenal growth of exports, which in real terms grew at a 15 percent annual rate. Without any



Note: 1987 "actual" data are partly estimated.

growth in exports, real GNP would have increased only half as much as it did.

We attribute the turnaround to two factors. The decline in the dollar exchange rate since 1985 is one. That improved the price competitiveness of U.S. exports and raised import prices relative to domestic prices. The other factor is the strong demand situation in other countries, notably the Pacific region, as evidenced by the Scoreboard's leading indexes.

Looking Ahead. What about prospects for 1988? The accompanying chart presents the results of a simple method of forecasting year-to-year percent changes in the real volume of trade. The method looks at imports and exports separately, and in each case the forecast is based on the same two factors just mentioned: relative prices and anticipated demand. Thus the export forecasts (top-left chart) are based on the prior change in a real dollar exchange rate covering 40 countries, as compiled by Morgan-Guaranty (the measure of relative prices), and the prior growth rate in our 8-country leading index excluding the U.S. (the indicator of demand for U.S. exports). Correspondingly, the import forecasts (top-right chart) are based on the same exchange rate and the growth rate in the U.S. leading index (the indicator of demand for U.S. imports).

The forecasts generated by this method catch most of the major swings in trade, though they overestimated the recent gains in exports and underestimated those in imports. As a result, although substantial deficits were projected, the forecasts underestimated the trade deficits since 1984 (lower left chart).

For 1988, the method predicts a gain of 15 percent in exports and a 3 percent increase in imports, which translate to a deficit of \$90 billion. This would be a major improvement over the 1987 actual deficit of \$138 billion in the third quarter. Perhaps it should be discounted a bit because of the recent tendency of the forecasts to understate the deficit. Nevertheless, some appreciable improvement seems likely in view of the trends already underway. And that will help support growth in the economy in 1988, at a time when it may need all the help it can get.

We have refrained from forecasting export and import prices in this exercise. However, it is useful to recall how these prices have behaved in recent years (lower right chart). In 1974 and 1980 import prices moved up faster than export prices, largely as a result of the oil shocks. Between 1981 and 1986 import prices rose less rapidly or fell more rapidly than export prices, mostly in response to the appreciation in the value of the dollar from 1980 to 1985. But in 1987 import prices rose about 8 percent while export prices scarcely rose at all. The declining dollar plus an increase in oil prices brought about this reversal of pattern, which in turn helped account for the improvement in the real trade balance that we have observed. As things look now, that improvement will continue and perhaps even gain some momentum in 1988.

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